Insured Farm Loans

Information for Lenders

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Farmers Home Administration
Washington, D. C.

Information for Lenders About Insured Farm Loans

The insured farm loan program is designed to make available to farmers and ranchers a supplemental source of credit and to encourage the use of private capital in place of direct Government loans. Through this program which is carried on by the Farmers Home Administration, an agency in the U. S. Department of Agriculture, private lenders can advance funds to eligible farmers to buy land and to improve their farms.

Payments on principal and interest are fully guaranteed by the Government. All loan-making and servicing operations are handled by the Farmers Home Administration.

Loans are made only to farmers unable to obtain the necessary credit through usual credit channels at reasonable rates and terms. Applications from veterans receive preference in processing.

Types of Loans

Two broad categories of loans are insured: (1) Soil and water conservation loans, and (2) farm-ownership loans.

Soil and water conservation loans, as authorized by 16 U. S. C. 590r et seq., as amended, Public Law 597, 83d Congress, may be advanced to pay cash costs of materials, equipment and services directly related to soil conservation; water development, conservation and use; and drainage. This includes such improvements as the construction and repair of terraces, dikes, and ponds, establishment and improvement of permanent pastures, basic application of lime and fertilizer, tree planting, well drilling, land leveling, ditching, and the purchase of pumps, sprinkler systems and other irrigation equipment. Soil and water conservation loans may be made to individuals in amounts up to $25,000 and to certain nonprofit incorporated associations in amounts up to $250,000.

Farm ownership loans, as authorized by 7 U. S. C. 1001–1005d, as amended, Public Law 521, 83d

Congress, may be used to help tenants purchase farm of their own, to help small farmers develop enlarge their farms into economic units and to nance, on family-type farms, the construction ar repair of farm houses and other essential farm buil ings. Insured farm ownership loans are limited 90 percent of the fair and reasonable value of tl farm.

Assured Market

Many of the insured loans will be repayable periods from 2 to 10 years. When a loan has term extending more than 10 years the lender ma within the 11th year, assign the loan to the Gover ment and receive full payment in cash.

After the initial 10-year period has elapsed, the lender prefers, the Government may offer hi a repurchase agreement for an additional perio Or the lender may decide to hold the insured lo until it is refinanced or paid in full by the borrowe

Refinancing

A borrower is required to refinance his insur loan whenever he is able to obtain a noninsured lo on reasonable rates and terms.

Security

The Government guarantees that lenders wl invest in insured loans will receive full payment principal and interest.

Several safeguards are used to protect the Gover ment's interests. Before the loans are made tl applications are reviewed by the local county co mittees of the Farmers Home Administration. The committees are composed of three local persons, least two of them farmers, whose reputations f sound judgment are well established. No loan made unless the committee certifies that the app cant is eligible and has a reasonable likelihood f success.

Generally, a loan will be secured by a mortga on the borrower's farm; however, selected items chattel property may be used to secure soil and wat conservation loans.

To further assure likelihood of success and repa ment of the loans, the Farmers Home Administr

ion, when necessary, furnishes technical assistance o borrowers in developing and carrying out sound arming methods.

nterest Rates

The interest rates are established so as to assure fair return to the lender under prevailing money ıarket conditions. In addition to the interest paid he lender, the borrower pays annually a 1 percent ısurance charge to the Farmers Home Adminis-ration.

lepayments

The Farmers Home Administration collects all ayments from the borrower and transmits to the ender by United States Treasury check, amounts o be applied on the note. Such payments are pplied first to interest accrued on the note as of he date of the United States Treasury check, and econd to principal. Refunds, however, will be pplied entirely to principal.

Installments on the note become due annually on anuary 1, but advance payments may be made at ıe convenience of the borrower. Payments made y the borrower will be remitted to the lender when eceived, except payments aggregating less than 200 during a calendar quarter will be remitted at ıe end of the quarter.

If a borrower is in default on an installment on ıe note, the Farmers Home Administration will ay the current holder of the note the amount due nd unpaid.

The borrower is in default on an installment when ıe accumulative amount of payments (other than efunds, or the proceeds from the sale of mortgaged roperty or from royalties from leases under which ıe value of the property is depleted) made on the ote is less than the accumulative amount due.

Payments to lenders of amounts borrowers are in efault will be made from the insurance fund estab-shed under section 11 (a) of the Bankhead-Jones 'arm Tenant Act, as amended (7 U. S. C. 1005a and ection 10 (a) 3 of the act of August 28, 1937, as mended by Public Law 597, 83d Congress).

To protect the Government's interest the Farm-rs Home Administration may, when a borrower

is in default for any reason, take over the insur loan and pay the lender in cash the full amount unpaid principal and interest.

Marketability and Collateral

The loan instruments held by the lender are tran ferable. Notice of transfer must be given by tl lender to the Farmers Home Administration so th the agency may remit payments to the curre holder of the loan. The benefits of loan insuran will accrue to an assignee upon acknowledgment b the Government of the notice of assignment. Loa may be used for collateral without notifying tl Farmers Home Administration.

Loan Servicing

All loan-making and servicing operations are ca ried on by the Farmers Home Administratio This includes the approval of applications, the a praisal of farms, the obtaining and servicing security, and when necessary, helping borrowe develop sound and profitable farming operations.

Any work or expense involved in handling deli quencies or foreclosures is also the responsibility the Farmers Home Administration.

Lending Procedure

The following steps are taken in making an insure loan:

1. The farmer applies at the Farmers Home Ad ministration office serving the county in which th farm to be bought or improved is located. Th office is usually located at a county seat and ma serve more than one county.

2. The local county committee certifies as to th applicant's eligibility and his reasonable likelihoo for success.

3. The Farmers Home Administration takes wha ever steps are necessary to determine the soundnes of the loan and to obtain adequate security.

4. When the loan is ready to be closed the Farme Home Administration requests a check from th lender for the amount of the loan. As soon as an insured loan is closed the agency forwards to th lender a note bearing the Government's guarante In addition, for a farm ownership loan, the agenc

rwards to the lender the mortgage as soon as it is corded. The agency in all cases will hold any operty insurance policies, title insurance policies, d opinions of title.

ifferences Between Types of Loans

As far as lenders are concerned, here are the prin- pal differences between soil and water conservation ans and farm ownership loans.

1. *Term.*—The majority of the farm ownership ans will be 40-year loans. It is expected that most il and water conservation loans will be for periods less than 10 years.

2. *Security.*—Insured farm ownership loans are ways secured by a first real estate mortgage and e Bankhead-Jones Farm Tenant Act requires that e lender be the mortgagee. Soil and water con- rvation loans may be secured by less than a first ortgage on real estate and by liens on selected attels. In the case of soil and water conservation ans, the Government is the mortgagee.

However, whether the mortgage is held by the nder or the Government, the lender's investment fully guaranteed.

ender Participation

To participate in the insured loan program a nder should write to R. B. McLeaish, Adminis- ator, Farmers Home Administration, Washington , D. C. In the letter the lender should state the nount of money he wishes to invest in insured ans, the period of time the money he wishes to vest will be available, the States and territories in hich the lender desires to participate in the insured an program, and whether the lender desires to vance funds for both farm ownership and soil and ater conservation loans.

The Administrator of the Farmers Home Adminis- ation will acknowledge the lender's commitment d will notify the agency's field offices of the sources insured funds available.

For further information write—

Farmers Home Administration
U. S. Department of Agriculture
Washington 25, D. C.

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